

Approved as Submitted: July 6, 2005

**CITY OF MORGAN HILL
JOINT REGULAR CITY COUNCIL
AND SPECIAL REDEVELOPMENT AGENCY MEETING
MINUTES – JUNE 15, 2005**

CALL TO ORDER

Mayor/Chairman Kennedy called the special meeting to order at 7:03 p.m.

ROLL CALL ATTENDANCE

Present: Council/Agency Members Carr, Grzan, Sellers, Tate and Mayor/Chairman Kennedy

DECLARATION OF POSTING OF AGENDA

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

SILENT INVOCATION

PLEDGE OF ALLEGIANCE

At the invitation of Mayor/Chairman Kennedy, Daryl Manning, President of Independence Day Inc., led the Pledge of Allegiance.

CITY COUNCIL REPORT

Council Member Sellers reported that the City Council and Planning Commission held a joint workshop last week. He felt that this was a long overdue workshop and that it was a productive workshop. With Monday's announcement by the Governor that he is calling for a special election, he felt that it was an opportunity for the City to give serious consideration to placing a measure on the November 2005 ballot that may allow the Council to take some of the actions considered. He stated that there were a variety of proposals developed and discussed at the workshop held last week that the Community & Economic Development Committee will be taking a closer look at; quickly returning to the Council with any thoughts and recommendations so that the Council can give it full consideration. He said that these are exciting times for the downtown, but that the downtown is in a precarious situation. He felt the City has an opportunity to move forward quickly, and that there are concerns amongst several individuals in the downtown that without significant actions, the downtown would back slide in ways that would be difficult to recover from in future years. He indicated that the Community & Economic Development Committee has been actively involved and that these activities will be reported later this evening.

CITY MANAGER REPORT

City Manager Tewes indicated that it is mid June and that this will begin his annual weekly discussions with the Council on how the State has failed to adopt a budget. Today is the constitutional deadline for the adoption of the State budget. He indicated that the State budget was presented to the Assembly and Senate floors and that the budget was approved on a straight party line. This means that it did not meet

the second constitutional requirement of a 2/3 vote in each house to approve the budget. He stated that he will report at each Council meeting how well the State is doing. From the City's perspective, there are some matters, great and small, on the State budget. He said that there are disputes on whether or not to continue funding of booking fee reimbursements from the State. There was a proposal from the Governor to advance the repayment of some of the monies shifted in the past. He indicated that this reimbursement was not included in the budget that was presented to the floor. This was the major difference between the Governor's proposal and the proposal voted upon, but has not yet been adopted. He noted that the Council will begin its deliberation on the City's budget this evening with a public hearing, and that the budget is scheduled for Council adoption next week.

CITY ATTORNEY REPORT

City Attorney McClure stated that he did not have a City Attorney's report to present this evening.

OTHER REPORTS

PUBLIC COMMENT

Mayor/Chairman Kennedy opened the floor to public comment for items not appearing on this evening's agenda. Allan Abrams addressed the Walnut Grove Planned Unit Development (PUD). He stated that he represents Citizens for Responsible Development, the neighborhood most affected by possible development in the Walnut Grove PUD area. He indicated that this group is approximately 1,000 individuals strong and growing. This group is aware, vigilant, and watching the Council very carefully on its plans for auto dealerships and development of the Walnut Grove area. He referred to the May 4 Council meeting minutes. The minutes raised several concerns that some Council members may not have heard what the group had to say in last fall's election concerning the proposed development of auto dealerships in the Walnut Grove PUD. He stated that the group is against auto dealerships to be developed in this area and that they are not ready to discuss a compromise. However, the group is willing to sit down with the City Council and the Redevelopment Agency and talk about development of the area. He stated that the group is not so naïve to believe that the open spaces/vacant land would remain as such forever. The group realizes that there are property owners who have expectations of developing their land and maximizing their investments. He referred to articles in the Newspaper over the past 6-7 months, in particular, the news article immediately following the last Council's retreat where Council Member Sellers promised no more auto dealerships near Fords. In a similar newspaper article a few weeks later, Mayor Kennedy was a guest columnist who stated that it was important to involve the community in the decision making process and to work toward a solution that works for the greater Morgan Hill community and the nearby neighbors, such as the case with proposed auto dealerships in Morgan Hill. He requested the City come to the residents with proposals and solutions; but not with a proposal for an auto dealership. No further comments were offered.

City Council Action

CONSENT CALENDAR:

Mayor Kennedy indicated that he has a speaker card from Daryl Manning regarding Consent Calendar Item 3. He stated that he would give Ms. Manning an opportunity to address the Council before it takes action on the Consent Calendar.

Daryl Manning thanked the City for its ongoing support of Independence Day Inc. (IDI) that enables the organization to continue the proud tradition of the Fourth of July celebration. She indicated that the Chamber of Commerce's networking mixer to be held tomorrow is being co sponsored by IDI. It is also being co sponsored by Le Bistro and Guglielmo Winery. She indicated that the event will take place at Guglielmo Winery from 5:30-7:00 p.m. She stated that the 2005 IDI T-shirts will be on sale. The original art work will also be on display. She stated that the artist that won the design competition is Jay Jennings, an 11th grade student from Live Oak High School. She said that the Chamber raffle will benefit IDI. To be sold are raffle tickets for a motorcycle that will be awarded on the Fourth of July, prior to the fireworks display. She identified the schedule of Fourth of July activities as follows: July 1 at noon - golf tournament @ Coyote Creek Golf Club; July 3 – Patriotic Sing 6-7 p.m. at Britton Middle School Gym; July 3 – Street Dance 7-11 p.m. in the downtown; July 4 – 5K race and children 1 mile fun walk @ 8:00 a.m. at P.A. Walsh; July 4 – Downtown Parade @ 10 a.m. – 12:00 p.m., Family Festival and Entertainment @ 11 a.m. until the fireworks at Community Park, and fireworks at dusk.

Mayor Pro Tempore Tate requested that item 3 be removed from the Consent Calendar as he would be abstaining from voting on that item.

Action: *On a motion by Council Member Sellers and seconded by Council Member Carr, the City Council unanimously (5-0) **Approved** Consent Calendar Items 1-15 as follows:*

1. **FIRE SERVICES CONTRACT**

Action: 1) **Approved** the Contract; and 2) **Authorized** the City Manager to Execute the Contract on Behalf of the City.

2. **AGREEMENT WITH “CIRCA: HISTORIC PROPERTY DEVELOPMENT” TO PREPARE HISTORIC CONTEXT STATEMENT FOR THE CITY OF MORGAN HILL**

Action: **Approved** and **Authorized** Execution of the Agreement, Subject to Review and Approval by the City Attorney.

4. **AQUATICS CENTER OPERATING POLICIES**

Action: **Approved** Current Policies Regarding the Required Wearing of Swim Diapers for those under Three Years of Age and All Bags are Subject to Search Upon Entering the Facility.

5. **JOINT POWERS AGREEMENT (JPA) BETWEEN COUNTY OF SANTA CLARA AND THE CITY OF MORGAN HILL FOR CONTINUANCE OF THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM**

Action: **Adopted** Resolution No. 5910, Authorizing the City Manager to do Everything Necessary to Execute and Implement the Joint Powers Agreement (JPA) with the County of Santa Clara for the City's Continuing Participation in the County's CDBG Program.

6. **INDOOR RECREATION CENTER PROJECT – MAY CONSTRUCTION PROGRESS REPORT**
***Action:** Information Only.*
7. **ACCEPTANCE OF SIGNING AND STRIPING FOR CLASS II BIKEWAYS PROJECT**
***Action:** 1) Approved Change Order in the Amount of \$4,160 for Additional Pavement Widening at Dunne Avenue and Gallop Drive to Allow for Bike Lanes; 2) Appropriated \$5,300 from the Current Year Un-Appropriated Street Fund Balance to Cover Non-Grant Related Costs; 3) Accepted as Complete the Signing and Striping for Class II Bikeways Project in the Final Amount of \$76,053; and 4) Directed the City Clerk to File a Notice of Completion with the County Recorder's Office.*
8. **AWARD OF CONTRACT TO PROVIDE PLAN CHECKING SERVICES ON AN AS-NEEDED BASIS**
***Action:** 1) Approved Fiscal Year 2005-2006 Professional Services Contract with Harris & Associates to Provide Contract Plan Checking Services on an As-Needed Basis at a Not-to-Exceed Fee of \$126,000; Subject to Adoption of the Fiscal Year 2005-2006 Budget; and 2) Authorized the City Manager to Execute the Contract; Subject to Review and Approval by the City Attorney.*
9. **APPROVE DISADVANTAGED BUSINESS ENTERPRISE (DBE) ANNUAL GOAL**
***Action:** Approved the City's Disadvantaged Business Enterprise Annual Overall DBE Goal of 3.2% for the Federal Fiscal Year 2004-2005, Beginning on October 1, 2004 and Ending on September 30, 2005.*
10. **AMENDMENT TO CONTRACT PROVIDING PUBLIC WORKS INSPECTIONS ON AN AS-NEEDED BASIS**
***Action:** 1) Approved Amendment to the Contract with Testing Engineers, Inc. (TEI) to Increase the Contract Amount by \$15,000; and 2) Authorized the City Manager to Execute the Contract Amendment, Subject to Review and Approval by the City Attorney.*
11. **APPROVE PURCHASE FOR GENERATOR ENCLOSURE AND TRAILER FOR LLAGAS BOOSTERS**
***Action:** 1) Approved Purchase of a Generator Enclosure and Trailer for Llagas Boosters from Quinn Power Systems; and 2) Approved Purchase Order of \$30,485.81 to Quinn Power Systems for the Enclosure and Trailer.*
12. **PUBLIC WORKS MAINTENANCE AGREEMENTS FOR FISCAL YEAR 2005-2007**
***Action:** 1) Approved New Maintenance Agreements for Sewer Repair for Sewer Lift Station Pumps and Storm Station Pumps; 2) Approved New Maintenance Agreements for Generator Maintenance Services; and 3) Authorized the City Manager to Execute the Agreements on Behalf of the City, Subject to Review and Approval by the City Attorney.*
13. **FOURTH AMENDMENT TO AGREEMENT WITH THE STROMBOTNE LAW FIRM**

Action: **Authorized** the City Manager to execute a Fourth Amendment to Agreement with the Strombotne Law Firm.

14. **RESOLUTION AUTHORIZING THE CITY OF MORGAN HILL TO ENTER INTO AN AGREEMENT WITH PUBLIC AGENCY RETIREMENT SERVICES TO PROVIDE AN ALTERNATE RETIREMENT SYSTEM FOR TEMPORARY AND SEASONAL EMPLOYEES AND ELECTED OFFICIALS**

Action: **Adopted** Resolution No. 5911.

15. **ADOPT ORDINANCE NO. 1726, NEW SERIES**

Action: **Waived** the Reading, and **Adopted** Ordinance No. 1726, New Series, and **Declared** That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING DEVELOPMENT AGREEMENT, DA-05-01 FOR APPLICATION MP-04-26: COCHRANE-MISSION RANCH (APN 728-32-010).**

Action: On a motion by Council Member Carr and seconded by Council Member Sellers, the City Council, on a 4-0-1 vote with Mayor Pro Tempore Tate abstaining, **Approved** Consent Calendar Item 3 as follows:

3. **AGREEMENT BETWEEN THE CITY AND INDEPENDENCE DAY, INC. TO CO-SPONSOR THE JULY FOURTH CELEBRATION**

Action: **Authorized** the City Manager to Sign the Co-Sponsorship with Independence Day, Inc., Subject to Review and Approval by the City Attorney.

Redevelopment Agency Action

CONSENT CALENDAR:

Action: On a motion by Agency Member Sellers and seconded by Agency Member Carr, the Agency Board unanimously (5-0) **Approved** Consent Calendar Item 16, as follows:

16. **FACADE IMPROVEMENT PROGRAM**

Action: **Authorized** the Executive Director to Make the Recommended Changes to the Facade Improvement Program.

City Council and Redevelopment Agency Action

CONSENT CALENDAR:

Action: *On a motion by Council/Agency Member Sellers and seconded by Council/Agency Member Carr, the City Council/Agency Board unanimously (5-0) Approved Consent Calendar Item 17 as follows:*

17. MINUTES OF JOINT REGULAR CITY COUNCIL AND SPECIAL REDEVELOPMENT AGENCY MEETING OF JUNE 1, 2005

Action: *Approved the Minutes as written.*

Council/Agency Member Sellers requested that Consent Calendar item 17 be reconsidered as he was not in attendance at the June 1, 2005 meeting and that he would be abstaining from the approval of the minutes.

Action: *On a motion by Council/Agency Member Sellers and seconded by Mayor Pro Tempore/Vice-Chair Tate, the City Council/Agency Board unanimously Agreed to reconsider item 17.*

Action: *On a motion by Mayor Pro Tempore/Vice-chair Tate and seconded by Council/Agency Member Grzan, the City Council/Agency Board, on a 4-0-1 vote with Council/Agency Sellers abstaining, Approved the June 1, 2005 Minutes as written.*

City Council Action

PUBLIC HEARINGS:

18. DEVELOPMENT AGREEMENT AMENDMENT, DAA-03-15: EAST CENTRAL-WARMINGTON HOMES

Director of Community Development Molloy Previsich presented the staff report, informing the Council that this item was advertised for a public hearing. However, it was later determined that a development agreement amendment was not necessary. She requested that the Council table the item following receipt of public testimony, taking no action.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) Tabled this item.*

19. DEVELOPMENT AGREEMENT AMENDMENT, DAA-98-11: SPRING-MALONE/SPEER – Ordinance No. 1727, New Series

Director of Community Development Molloy Previsich presented the staff report, indicating that this is a development agreement to provide for a one year extension for the construction of one of the homes in the Spring-Malone/Speer project.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Waived** the reading in full of Ordinance No. 1727, New Series.*

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1727, New Series, by Title Only, as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO ORDINANCE NO. 1685, NEW SERIES, TO AMEND THE DEVELOPMENT AGREEMENT FOR APPLICATION MP-97-22: SPRING – MALONE/SPEER TO ALLOW FOR A ONE YEAR EXTENSION OF TIME FOR A SINGLE CUSTOM LOT BUILDING ALLOTMENT RECEIVED IN THE 1998-99 RDCS COMPETITION (APN 767-53-012)**, by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.*

20. DEVELOPMENT AGREEMENT, DA-05-02: COCHRANE-LUPINE – Ordinance No. 1728, New Series

Director of Community Development Molloy Previsich presented the staff report of a development agreement for 36-single family homes, the final phases of the Alicante Estates Project.

Mayor Kennedy opened the public hearing. Dick Oliver, representing the applicant, informed the Council that he was in attendance to respond to questions it may have. No further comments being offered, the public hearing was closed.

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Waived** the reading in full of Ordinance No. 1728, New Series.*

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1728, New Series, by Title Only, as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING A DEVELOPMENT AGREEMENT FOR APPLICATION MC-04-25: COCHRANE – LUPINE (APN 728-34-022)**, by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.*

21. DEVELOPMENT AGREEMENT AMENDMENT, DAA-04-04: HILL GERA – Ordinance No. 1729, New Series

Director of Community Development Molloy Previsich presented the staff report; a request for development agreement approval for a 9-lot single family project on 9 acres. She stated that this project received an allocation in April 2005. The expiration date for the building allotment is June 30, 2005.

She informed the Council that the applicant is requesting an 18-month extension of time to commence construction of the 6-building allotments. She indicated that it is an unusually short time between the tentative map approval and the development schedule. In addition, there was a death in the family that creates a need for additional time to manage the project's transition.

Mayor Kennedy opened the public hearing. Nick Gera indicated that he was in attendance to answer any questions the Council may have. No further comments being offered, the public hearing was closed.

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Waived** the reading in full of Ordinance No. 1729, New Series.*

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1729, New Series, by Title Only, as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO ORDINANCE NO. 1718, NEW SERIES, TO AMEND THE DEVELOPMENT AGREEMENT FOR APPLICATION MP-02-17: HILL - GERA (APN 728-07-47, 728-07-48, 728-07-49, 728-07-50, 728-07-51, 728-08-014, 728-08-015) by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.***

22. ZONING AMENDMENT APPLICATION, ZAA-01-20: TENNANT-SAFEWAY – Ordinance No. 1730, New Series

Director of Community Development Molloy Previsich presented the staff; a request to amend the precise development plan for the Tennant Station Shopping Center to allow an increase to the size of the Cinelux Movie Theater by 8,586 square feet. The expansion would accommodate three additional movie screens. Staff has found that even with the remodeling, the theater would have an overall reduction in seating capacity from the original condition. She indicated that prior to 2004, the theater had 1,382 seats and with the proposed project, this will be reduced by 93 seats. On this basis, the proposed reduction of 25 parking spaces was found by staff and the Planning Commission not to worsen an existing non confirming situation from the original condition. She informed the Council that the Planning Commission voted 6-1 to approve the request.

Mayor Kennedy opened the public hearing. Ron Sotelo, Manager of the Cinelux Theater and on behalf of Paul Gunsky, stated that they are happy to be in the Tennant Station Shopping Center and that it was their hope the Council would approve the amendment. No further comments being offered, the public hearing was closed.

Action: *Mayor Pro Tempore Tate made a motion, seconded by Council Member Sellers, to **Waive** the reading in full of Ordinance No. 1730, New Series.*

Council Member Grzan expressed concern that the area is being heavily impacted by the addition of the Safeway Store and additional retail stores that were opened across from 24-Hour Nautilus. Even if the

applicant has an overall reduction in the number of seats, he felt the area has increased impacts from other retail stores. He said that it was his understanding that the bowling alley may return and may further impact the area. He stated that he will vote to approve the request because the amendment is a good request. However, he felt that the City needs to look at solving some of the parking issues. It is his hope that City staff and/or the Planning Commission will take a look at the parking issue.

Ms. Molloy Previsich indicated that on a 6-1 vote, the Planning Commission felt that the parking situation, upon completion of the expansion, would continue to be sufficient for the shopping center. The Planning Commission understood that there was a location issue. She noted that most of the vacant unused parking spaces are located in front of the furniture store. She stated that this is an inherit situation that the City lives with as the entire shopping center cannot be reconfigured. She said that this is an existing non conforming use and an existing less than perfect shopping center site plan. Ultimately, the Planning Commission felt that the mixed uses and parking spaces would be adequate for the site. She informed the Council that the area meets fire access requirements.

Council Member Sellers noted that the discussion among the Planning Commission, including correspondence received from Cinelux representatives, focused on peak hours for the theater. He said that the key to the issue is the overlapping hours not only for Cinelux, but for the other businesses. He did not believe that the parking issue is one that Cinelux has to address, but that it needs to be addressed. He recommended the City continue to work with the shopping center's developer in figuring out complimentary uses for the shopping center. He felt that it would be disastrous to have a series of restaurants with similar hours as the theater. He noted that there is a fair amount of turnovers at the shopping center with several of the major businesses leaving. He recommended that the developers of the shopping center look at businesses that would be complimentary to the flow so that the parking spaces are not impacting critical hours, particularly in the weekend or evenings. He stated that he too would be supportive of the request, but wanted to make sure that the City relays this concern to the shopping center developers.

Mayor Kennedy said that he and the Council are in receipt of a letter from Paul Gunsky from Cinelux as well as Shelly LaFore. He stated that he has been pleased with the performance of Cinelux. He noted that new Safeway Store and new activity taking place in the center is bringing the shopping center back to life. He felt that the additional traffic is a good thing. However, the City needs to be somewhat cautious about not going too far where it jeopardizes the safe performance of the shopping center. At this point, he does not see a risk in the expansion and that the actions taken thus far are welcomed and appropriate. The community now has a wonderful theater for families and members of the community. He stated his support of the work that has taken place and the continued development of the Cinelux Theater. He thanked the developers and Paul Gunsky for making this happen.

Council Member Carr stated that he could only hope that a parking problem needed to be solved at the shopping center as it is a better alternative to a vacant shopping center. He expressed best wishes to Cinelux and thanked them for their continued support of the community.

Vote: *The motion carried unanimously (5-0).*

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1730, New Series, by Title Only as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO THE PRECISE DEVELOPMENT PLAN APPROVED UNDER ORDINANCE NO. 1546, NEW SERIES FOR THE TENNANT STATION SHOPPING CENTER LOCATED IN THE PLANNED UNIT DEVELOPMENT (PUD) DISTRICT ON THE SOUTHEAST CORNER OF THE INTERSECTION OF MONTEREY ROAD AND TENNANT AVENUE (APN's 817-06-039, 040 & 41), by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.***

23. FOX HOLLOW-MURPHY SPRINGS LANDSCAPE AND LIGHTING ASSESSMENT DISTRICT – CONDUCT FIRST PUBLIC HEARING FOR PROPOSITION 218 BALLOTING PROCESS

Mayor Kennedy stepped down as he resides within 300 feet of this item. He excused himself from the Dias.

Deputy Director of Public Works Struve presented the staff report, indicating that tonight is the second meeting of a series of three that is required by the Proposition 218 balloting process initiated by the Council on May 4, 2005. At the May 4 meeting, the Council declared its intent to levy assessments in 8 of 20 sub areas where the assessment rate is proposed to be increased and 17 out of the 20 areas where a 3% per annum inflator is proposed. He indicated that the third meeting will be held on July 6 where all ballots mailed to property owners affected will be tabulated. He stated that tonight's meeting is for the specific purpose of allowing property owners to express comments relative to any issues about the landscape and lighting district and the proposed rate increase. He stated that since the May 4 meeting, City staff has sent a packet of information to each property owner explaining what is taking place; receiving the legal notice required relative to either the proposed rate increase, the inflator and/or both; receiving a ballot. He informed the Council that public meetings were held on June 2, June 7 and June 13 at public works and the community center. Also, in attendance at the public meetings was the contractor that performs City maintenance in order to increase the accountability to the residents and receive comments. He said that the contractor has already responded to several items raised at the meetings. He informed the Council that two items emerged from the meetings: 1) there were some individuals opposed to the increase. In general, they were in favor of the increase, but wanted accountability for the services to be received in the coming years. 2) There were inquiries about the possibility of establishing a city-wide landscape assessment district where there may be more than one purpose for this assessment district (e.g., maintenance of roadway medians, public facility grounds; incorporating the existing landscaping and lighting area). He indicated that staff mailed 706 notices. At the 3 meetings held, approximately 15 individuals attended each meeting. He stated that overall, between phone calls, e-mails and meetings; he received between 30-40 responses.

Mayor Pro Tempore Tate opened the public hearing. No comments being offered, the public hearing was closed.

Action: **No Action Taken.**

City Council and Redevelopment Agency Action

PUBLIC HEARINGS:

24. PUBLIC HEARING OF PROPOSED FISCAL YEAR 2005-2006 OPERATING AND CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

Finance Director Dilles presented the staff report on the proposed Fiscal Year 2005-06 budget. He presented a power point presentation that covered the following: total general fund revenues; sales tax receipts by quarters; general fund fee revenue assumptions; a \$106 million expenditure budget proposed for the FY 2005-06 budget and a CIP budget of \$37 million. He stated that the general fund cost is proposed at \$19.9 million and revenue is at \$18.7 million with a net deficit of \$1.2 million. He said that the projections, over the next five years, depict a structural deficit of over \$1 million per year for FY 2005-06 through FY 2009-10. He addressed various budget scenario projections and staff assumptions. He addressed a possible increase in the Redevelopment Agency tax increment and its use. He stated that should the Redevelopment Agency tax increment not be increased; funds would go toward property taxes.

City Manager/Executive Director Tewes indicated that based on the direction given by the Council/Redevelopment Agency; staff will be looking at a series of options for Redevelopment Agency tax increment. He stated that staff did include in the forecast any variability in the reimbursement that the Redevelopment Agency makes to the General Fund based on whether it was large or small. Staff assumed that the existing Redevelopment Agency project area would remain and that the tax increment would continue to flow during the five year forecast period. He clarified that options will be evaluated for the City Council/Agency Board's decision later this year.

Finance Director Dilles indicated that there is an assumption that the indoor recreation center would break even in the year beginning September 1, 2008. Another assumption is that the City will receive \$630,000 from the State to restore the vehicle license fees and other assumptions such as State borrowing, no city hall expansion, and no expansion in fire services over this period of time. He informed the Council that staff is requesting that the Council/Redevelopment Agency reconfirm the adoption of the budget scheduled for June 22, 2005, following receipt of public testimony.

Council/Agency Member Grzan noted that the aquatics daily admission, seasonal passes and swim lessons are proposed to increase. He inquired whether other recreational fees are proposed to increase. He inquired whether there have been structural changes to class registration/participation fees. Is there a mechanism for the City to identify how the fee increases are affecting the public? He expressed concern that should the City start raising fees for recreation services, the City may preclude a portion of its population from participating in public recreational services. He recommended the City closely monitor recreational fees and how it affects the population. He expressed concern that residents may not be able to afford to participate in programs they paid for.

Finance Director Dilles informed the Council that some of the aquatics rental structure has been changed with the tenants who rent the facility. He indicated that there have been no structural changes to class registration/participation fees.

Council/Agency Member Sellers stated that the Council may be interested in considering piggy backing on the Governor's November 2005 ballot. He requested that the City Clerk provide costs for a special election.

City Clerk Torrez informed the Council that no funds have been included in the proposed Fiscal Year 2005-06 budget for a November 2005 election. She indicated that the Santa Clara County Registrar of Voters will be hosting a meeting next week and that they would advise cities as to costs associated with elections this upcoming year.

Mayor/Chairman Kennedy opened the public hearing

Gina Varela Faust, 2005 Chair of the Morgan Hill Chamber of Commerce, informed the Council that on behalf of the Chamber of Commerce and its 650+ members and business partners, as it relates to the economic development partnership budgeting, she stated their support and requested a continuation of such efforts. She said that the Chamber of Commerce looks forward toward working with the City of Morgan Hill again this year. The Chamber of Commerce appreciates the time and efforts the City Council invests in the future of the community and with the continued Chamber of Commerce private enterprise partnerships. She stated that the Chamber of Commerce believes that Morgan Hill will continue to realize exceptional benefits from collaborative efforts.

No further comments being offered, the public hearing was closed.

Council/Agency Member Sellers noted that the Finance Director indicated that should the City continue with its current course, the City would end up in a deficit. He said that the Council is the policy maker and stated that the Council wants to maintain a 25% reserve. He felt that it was important for the public to understand that the City will have dipped into the reserve to a level that exceeds the Council's Goal. He noted that the City has been very prudent and that the City will continue to have a reserve past this time period if it continues on its trajectory. He felt that it was crucial that the City begins its discussion with the community that there will be impacts. He stated that it is sometimes difficult for the public to understand the consequences of a lot of the actions the City undertakes. He said that several of the actions to be taken this evening will have a direct impact to the community in terms of paying higher fees to use the aquatics center or not seeing the same level of services in parks or other facilities. He felt that the Council needs to continue the conversation that explains why the City is still able to maintain services at certain levels as much as possible. However, it will not be at the same level the community has been accustomed to and explaining the reasons why. He felt that sometimes the City does too good of a job trying to minimize impacts to the community, and that it was important for the Council to take a step back and advise the community what is taking place. He noted that the Council has repeatedly stated that it wants to make sure the City minimizes the impacts on those who can least afford to pay for recreational services. Should the Council continue to state that all services need to pay for themselves and the City continues to face take a ways from the State and/or other budget cutbacks, the City will be

in a position where it will force itself into a corner where everyone will need to pay more, including those who can least afford it. He recommended that the Council figure out ways to publicly convey this information to the community so that community members are aware of the situation, and that all impacts are not without costs.

Mayor/Chairman Kennedy indicated that he sent an e-mail message to the City Manager and the City Council prior to the budget workshop held on May 20, 2005. His e-mail talks about the City Manager's budget message, and the fact that it has been the State takeaways, the economic downturn, and the Public Employee Retirement System investment losses that have hurt Morgan Hill and other cities. He stated that the Council had the foresight to set aside reserves during the good times and did not hire a lot of new people, nor commenced a lot of new programs that would create ongoing costs. He stated that the City has been frugal and that the City has the reserves that can be utilized in this economic downturn. He said that the impacts being seen are structural and difficult to deal with. He said that the City Manager and staff have cut the budget significantly over the past several years; including services community members have been used to seeing. He stated that the City continues to have a minimal staffing level in the police department, and felt that everyone would like to see additional police officers on the street, traffic enforcement and more focus on public safety. Even though the City continues to have one of the best smallest police department in the state, it is not an easy task to do. He said that it is difficult for City staff to operate under these very tight resources and that creates a lot of stress. He wanted to make sure City employees know that the Council understands the situation the City is in. He felt that it was important that community members understand the City's situation. He agreed that the Council needs to commence in engaging the public in a conversation on what levels of services they expect. The City needs to know whether the community wants to have bare bone level of services or whether it expects to have a city that provides a full range of services; services everyone is willing to support.

Mayor/Chairman Kennedy presented specific items relating to the budget as follows: 1) After school programs for youth. He stated that he recently returned from a Mayors' conference in Chicago in which the City of Chicago offered after school and summer programs. He indicated that the City of Chicago has partnerships with schools and the library on a tremendous array of programs. He requested that \$200,000 of the reserves be set aside for the purpose of keeping the minimal level of after school programs that currently exist, expanding on these. He recommended the City seek grants to assist in after school programs, especially for youths at risk. It was his belief that the use of reserves for one time expenditures is appropriate and that he views this as being a 1-2 year project in order to keep the programs alive as the City builds its economic and revenue base. 2) He indicated that the City was limited in what it could do to slow down traffic to make the downtown more pedestrian friendly. He stated his support of setting aside an additional \$100,000 in reserves to improve traffic calming in the downtown. 3) \$50/month council member allowance to be used for cell phones, PDAs, or other communicating services/tools, subject to City Attorney legal review. He noted that there are costs that each Council member incurs, and felt that this would be a minimal cost to help support the Council's efforts in its elected duties. 4) He will be requesting that staff agendaize the discussion of increasing Council members' compensation and possibly the Mayor's compensation. He acknowledged that it may take a year or two to increase compensation.

Council/Agency Member Grzan noted that the Mayor indicated that the Council, over the last couple of years, did not add programs that would add ongoing costs. However, he noted that during these difficult times, the City is adding programs that are doing the opposite. He noted that the City built a community center that resulted in losses. An aquatics center was brought on line, resulting in a loss of \$274,000 in this last year alone. The City will be adding an indoor recreation center; noting that the budget made an assumption that it will break even. He stated that he knows of no other local public indoor recreation facility that makes money. The City will also be adding an outdoor recreational facility that will take \$260,000+ annually to maintain. He felt that the City should be conserving its dollars during these lean times and use them to maintain the City's infrastructures in place; including the core services of public safety and public works. It was his belief that the programs the City will develop and build will place the City at significant risk. He felt that the City should be prudent on how it uses its dollars during these difficult times. He inquired how much money has been spent in Redevelopment Agency funds over the last couple of years. If \$100 million in RDA funds have been spent, he inquired as to the return on these funds. It was his understanding that RDA dollars are economic development dollars that should be used to build and secure infrastructures such that the City brings in money that would allow it to support and maintain the facilities built and to offer affordable programs. He felt that this should be the City's investment strategy. However, at the same time, the City is taking on a significant number of projects that will place the City at risk. He felt that some of the projects in the pipeline will cost the City significantly. He expressed concern about the direction the City is taking during these difficult times. He did not believe that the financial impacts have ended for the City as the City does not know what the State will do to cities. It was his belief that "hope" has become the City's strategy and that this puts the City at risk. He stated that he would agree to move forward with the budget, but recommended that the Council/Redevelopment Agency take a closer look at RDA dollars and how they are to be used in the future as it was his belief that they should be used to bring in dollars in order to proceed with City projects and sustain them.

Mayor Pro Tempore/Vice-chair Tate noted that under agenda item 26, the Council will be discussing a critical item; the direction the City is to take to ensure that the reserves are not depleted in the future. He indicated that the Council received Mayor Kennedy's e-mail budget recommendation. He stated that the Council discussed the after school programs at the budget workshop. The Council noted that the Village Avente after school program had been cut. He said that it was his belief that the entire Council would like to see the Village Avente after school program reinstated as well as other programs for the underserved parts of the community. He stated that he would support the use of reserves to reinstate the Village Avente after school program. He indicated that he would like to see the results from the downtown traffic calming measures implemented before making decisions to go further. He understood the Mayor's concern about having some of the Council members' expenses reimbursed. However, it was his belief that Council members knew what they were getting into when elected into office. Therefore, he could not support a Council allowance. He felt that the City needs to focus on whether the City is able to convince the public that additional revenue generation is required. Once determined and supported by the community, he felt that the Council could address a lot more of these areas.

Council/Agency Member Sellers acknowledged that the Council reviewed the need for after school programs at the budget workshop. He agreed that after school programs are important. He stated that he was trying to figure out ways to innovatively coordinate the City's volunteers, and non profit resources

to continue after school programs as well as the indoor recreation center programming. He felt that it was important for the youth in the community with less means to have opportunities. He recommended that the community be integrated and provide interaction between young individuals of all ages and all economic levels. He said that it is a budget challenge the City faces. He noted that the Council adopted a policy to limit the reserve funds to one time uses and to limit them to projects that provide an economic development incentive. He stated that it was the expectation of the Council that it would see an income stream as a result of the use of these funds. Should the Council decide to implement a different policy, he felt that it should be stated publicly. The Council needs to identify what it believes the reserves should be used for. If the Council is going to change course and start using reserve funds other than for those items that generate income, it needs to be stated. As important as the items recommended by Mayor Kennedy for funding are, he felt that they were outside the parameters of the policy set by the Council. He said that there were several areas within redevelopment funding that the Agency Board may want to look at as far as the downtown is concerned. He thanked staff for installing the barriers in the downtown as they have had a significant impact on the vehicles traveling in the downtown. He stated that he would like to see how well the traffic calming measures recently installed are working before spending additional funds. If the Council wants to consider increasing salaries in the future, he would like this to be considered after his term in office as he did not want to vote on an item that will impact him as a Council member. The Council needs to make sure that it is not sending a mixed message to employees that they need to do more with less. He said that funding for after school programs is worth considering. However, he felt that the Council needs to have a discussion on its policy on the use of reserves before deciding on reinstating an item that goes against the policy in place.

Council/Agency Member Carr indicated that he and Mayor Pro Tempore Tate have discussed trying to find alternative funding sources for after school programs at the City-School Liaison Committee meetings. He said that it was his belief that the subcommittee of the Planning Commission is looking at Measure C and ways of generating revenue sources for these kinds of programs. However, if all Council members agree that after school programs are a good use of reserve funds, it may spur the discussion about the reserves and whether a 25% reserve is an acceptable level, or whether the level should be lowered. He noted that the Council continues to dip into and use the reserves almost as a slush fund for community promotions, etc. He stated that he was supportive of using the reserve funds for one time uses. However, he felt that the Council needs to be realistic about the reserve funds; taking a look at the reserve policy to see if it needs to be changed. He supported awaiting the results of the recently installed traffic calming measures before proceeding with the expenditure of additional dollars.

Mayor/Chairman Kennedy inquired whether the Community Services & Economic Development Committee or staff reviewed the cost of the Village Avente after school program or other programs.

City Manager/Executive Director Tewes indicated that at the Council's budget workshop, staff indicated that 3-4 years ago, the City began experimenting with after school programs. He stated that some programs were more successful than others, while others had very little participation. He indicated that programs with few attendees were eliminated. When the budget issues arose, the City eliminated after school programs. He stated that the Village Avente after school program was one of the more popular and successful after school programs. It was his recollection that Recreation and Community Services

Manger Speer indicated to the Council that the cost for the Village Avante's after school program was approximately \$37,000.

Council/Agency Member Carr agreed that after school programs are of great benefit. However, the City needs to be vigilante with the use of every dollar and make sure that the City is receiving benefits.

Mayor/Chairman Kennedy said that he brings the need for after school programs because the community survey indicates that the community ranked after school programs for at risk youths high.

City Manager/Executive Director Tewes said that should the Council wish to include funding for after school programs, it would be appropriate to ask staff to provide the Council with thoughts on program options and costs. The Council could direct staff to return with a report and recommendation on options and specific approaches for after school programs.

Mayor/Chairman Kennedy said that it was his hope that the City-School Liaison Committee would get involved with the School District and have a discussion with the new superintendent on this issue.

Mayor Pro Tempore/Vice-chairman Tate said that there were discussions about after school programs, but that he could not recollect whether it was a discussion at the Committee level or separate from the Committee with school board members on what factors made the Village Avente program successful.

Mayor/Chairman Kennedy noted that there is a Council consensus that it would like to do something with regard to after school programs. He recommended that the City-School Liaison Committee, working with staff, return to the Council with a recommendation. He agreed that the use of reserve funds for after school programs would be a deviation from the Council adopted policy. The question is whether the Council believes after school programs are important enough that it should change the policy in order to move forward.

Council/Agency Member Sellers stated his support of bringing back a report on after school programs, particularly programs that were successful. He recommended that indoor recreation facility uses be brought back in association with the report in order to integrate after school programs and have a sustainable program. He felt that the City needs to avoid impacting a program put into place only to eliminate it at a later date. He recommended that the City look at maintaining programs long term.

Mayor/Chairman Kennedy recommended that the City Manager be asked to schedule the discussion of sustaining such a program and how the indoor recreation center would fit in this discussion/role at the Council's January 2006 goal setting retreat.

Council/Agency Member Grzan noted that it has been stated that the reserve funds are to be used for activities that generate revenues.

Mayor Pro Tempore/Vice-chairman Tate clarified that reserve funds are to be used for economic development and investments.

Council/Agency Member Carr indicated that there are different levels of reserves to be used for different emergency purposes. The policy being referred to by Council/Agency Member Grzan is that the Council could dip/spend a certain percentage below the 25% reserve if the City could see a certain economic return within a certain number of years.

Mayor/Chairman Kennedy said that it was his recollection that there are three reserves: emergency, economic uncertainty, and general fund reserves.

City Manager/Executive Director Tewes stated that over the course of the past five years, the Council has revised the reserve policy. The current reserve policy has been in place for a year and that it is reflected on page 35 of the budget document. The general fund reserve policy states that reserve levels should not be depleted below 25% of revenues in any year with certain exceptions. He identified the exceptions. He stated that this policy was the basis used by staff to make the budget forecast. He said that the long term budget strategy states that the City will use the reserves above the 25% to sustain services until the budget comes into balance.

Council/Agency Member Carr referred to the community promotions budget and noted that the budget reduction strategy does not provide funding for non profit community events in the next calendar year. He did not believe the Council can continue funding at the level it has in the past. However, he felt the Council would receive requests for funding from non profits only to dip into the reserves. He recommended that the Council provide some funding in the community promotions budget and to ask one of the Council subcommittees to return with guidelines on how the dollars are to be spent.

Mayor/Chairman Kennedy supported adding funding to the community promotions budget as suggested by Council/Agency Member Carr.

Council/Agency Member Sellers stated that he would support adding funding to the community promotions budget at a level that makes sense as long as the funds are earmarked or designated for certain activities/entities.

Mayor Pro Tempore/Vice-chairman Tate stated he would agree to look at a community promotions budget, but that he was ambivalent about funding non profit agencies. He expressed concern with the message being sent that there is still plenty of money to fund items that are extraneous and whether the money was really there.

Council/Agency Member Carr said that the Council subcommittee would indicate what is extraneous and what is not extraneous.

City Manager/Executive Director Tewes informed the Council that the proposed budget includes \$125,000 of RDA funds for a contract with the Chamber of Commerce for economic development activities.

Mayor/Chairman Kennedy clarified that he stated that the City has been very frugal during the good years. He said the City has hired minimal staff and minimized growth in lien years. With respect to the

Redevelopment Agency and the return on investment (ROI), he stated that it was his understanding that not all RDA projects need to have an ROI. He said that there are public service community projects that are of community benefit and will eliminate blight.

City Manager/Executive Director Tewes indicated that RDA law does not specify a particular return on investment. The law states that a redevelopment agency must adopt a redevelopment plan, that the plan must identify the blighting influences on a specific geographic area, and must include a plan for how to spend money to address the blighting influences. He stated that in Morgan Hill, the redevelopment plan discusses the lack of economic development opportunities. Therefore, some of the blight is attributed to economics. The redevelopment plan identifies the lack of infrastructures, especially flood control and streets, and the lack of important community facilities as blighting influences. The redevelopment plan identified a series of facilities that could be invested upon by the Redevelopment Agency.

Council/Agency Member Grzan felt that it would be prudent to have a plan that not only creates enough income and revenue to build the facilities but to sustain them. He noted that the City has built facilities without a mechanism to sustain them. He stated that the City's economic base needs to be strong such that even during difficult times, the plan sustains the infrastructures. He noted the Mayor's recommended budget items would have driven the city's deficit even further. It was his belief that the City needs an increase in its revenue and its economic base to sustain the facilities the City has in place today. He stated that he finds it difficult to move forward with the construction of new facilities without a mechanism in place to sustain the facilities in place. He stated that he is skeptical about the community coming forward in support of additional revenue sources as it has had difficulty doing so, historically. He said that the Council should have adopted a more prudent policy years ago. He stated that he would have postponed the construction of the indoor recreation center until such time the City is able to sustain current facilities.

Mayor/Chairman Kennedy said that based on Council/Agency Member Grzan's comments, the City would have postponed construction of facilities. He stated that he could not support this philosophy. He noted that the Community & Cultural Center has been an overwhelming success. He acknowledged that there are some operating costs that have been incurred, but that they have been minimal. He felt that all of the City's facilities have been operating well in comparison to the cost of other facilities. He stated that there is a legitimate cost for recreation services that he is willing to support, and that it was his belief the community is willing to support these costs as well. He felt that a healthy community reaches out and demands these types of facilities in order to have a healthy/viable community.

Council/Agency Member Grzan agreed that these are wonderful facilities. However, if the City is unable to achieve its economic goals, the City would be cutting core safety services. He said that weighing the loss of core safety services with the benefits of recreational programs the City may not be able to maintain, the City would be placing the community at risk.

Mayor/Chairman Kennedy said that the City needs to involve the community in this conversation. He noted that this will be a topic of discussion with agenda item 26.

Council/Agency Member Carr stated his support for funding in the community promotions budget without suggesting a dollar level. He also supported the Mayor's suggestion of after school programming. He noted that the Mayor suggested \$200,000 in reserves be set aside for after school programs. He and Mayor Pro Tempore/Vice-chairman Tate felt that this amount was a little high.

Mayor/Chairman Kennedy noted that the Council asked staff to return with a budget number for after school programs.

City Manager/Executive Director Tewes stated that it was staff's belief that it was the Council's consensus to ask staff to evaluate after school programs, returning with a series of options and budget amount(s) for Council consideration at a later date. It was his belief that it was Council Member Carr's hope the Council would ask a Council committee to return with guidelines for community promotions expenditures. He did not believe that there was consensus for some of the other recommended items. With respect to traffic calming expenditures, it was the Mayor's belief that the Council is suggesting that the City wait to see the results of the traffic calming measures installed to date. He did not believe that there was action taken with respect to Council allowance for communication devices or PDAs.

Council/Agency Member Grzan stated his support of the \$50/month Council allowance as it would help offset his personal costs for conducting City business.

Mayor/Chairman Kennedy stated that another approach to the Council allowance suggestion would be for each Council member to submit its expenses for reimbursement. It was his belief that there was some budget allocation for Council expenses.

City Manager/Executive Director Tewes acknowledged that there are allocations within the Council's budget to provide for reimbursement of expenses. He stated that there is no way to precisely predict whether Council members would choose to ask for reimbursement or to attend conferences. He indicated that he had a conversation with Acting City Attorney McClure who reminds him that compensation of council members is established by State law, and for the Mayor, by the ordinance adopted by the voters when the City went to a separately elected mayor. He said that it may be possible to have the City purchase certain devices and make them available to Council members during their tenure on the Council, but it is not possible to provide an allowance to Council members for personal equipment as it would be tenable to compensation that is regulated. He said that it is City policy to provide reimbursement for any reasonable and actual expenses.

Council/Agency Member Carr recommended review of the policy on how the City uses reserve dollars outside of the budget process. He recommended that the Finance Committee take a look at the policy.

Action: *By consensus, the City Council/Agency Board **Provided** the above comments and **Agreed** to schedule the Proposed Budget for Adoption on June 22, 2005.*

Redevelopment Agency Action

OTHER BUSINESS:

**25. CHAMBER OF COMMERCE ECONOMIC DEVELOPMENT MARKETING PLAN
FOR FISCAL YEAR 2005-2006**

Director of Business Assistance and Housing Services Toy presented the staff report, indicating that it is being recommended that the Agency Board refer the Chamber of Commerce's Economic Development Marketing Plan to the Council's Community & Economic Development Committee for consideration and recommendation. Should the Agency Board desire, it can establish parameters by which the Committee can evaluate the proposal.

Chairman Kennedy opened the floor to public comment.

Dan Ehrler, representing the Chamber of Commerce, expressed their support of staff's recommendation to meet and address the proposed Marketing Plan details at the earliest date possible. It is felt that the meeting would be productive and they look forward to the meeting. He stated that the Chamber of Commerce believes and views this as a partnership between the City and the Chamber of Commerce, and the efforts put out, as an investment that has/will bring a return on collaborative efforts.

No further comments were offered.

Agency Member Sellers, chair of the Community & Economic Development Committee, stated that in talking briefly with staff and Chamber of Commerce representatives earlier this evening, it was agreed to review the Chamber of Commerce's Marketing Plan at the Committee's July 19 meeting. Therefore, there is time for subsequent discussion or input prior to the Committee's meeting. He stated that he will have questions that he will raise with the Chamber at that time and encouraged Council members to bring forth questions as the Committee will make sure the questions are answered as well.

Agency Member Grzan inquired how the City measures the value of its dollars and what the rate of return will be.

Agency Member Sellers said that this is a continuation of a question raised when Chamber of Commerce representatives first came to the Council. He stated that the Chamber of Commerce has developed ways to quantitatively measure the rate on return. He said that the Committee will be looking at the measures, how they have progressed and what is anticipated for next year.

Chairman Kennedy noted that the impact to the budget remains at \$125,000 whether the Agency Board relies on economic development or not.

Executive Director Tewes said that the \$100+ million budget includes staff's recommendation that the Agency/Council appropriate \$125,000 for services as requested by the Chamber of Commerce. He noted that under this agenda item, the Agency Board is considering a specific proposal from the Chamber of Commerce on how they propose to use the money. He stated that it would be appropriate for the Committee and the Agency Board to evaluate the use of the money.

Agency Member Grzan noted that it was mentioned that some of the dollars would be used to offset overhead costs. It was his understanding that in previous years, the dollars were used exclusively for projects. He felt that this year, it is being proposed to reduce the scope of the project based on coverage for overhead. He requested that the Committee take a look at this as well.

Agency Member Sellers indicated that he was going to ask the same question as this is an important issue; not only in terms on how it impacts the Chamber of Commerce's ability to provide services, but the precedent it will set in the use of RDA funds and the appropriate use of the City's economic development focus.

Action: *On a motion by Vice-Chairman Tate and seconded by Agency Member Sellers, the Agency Board unanimously (5-0) **Referred** the Morgan Hill Chamber of Commerce's Economic Development Marketing Plan to the Council's Community and Economic Development Committee for Consideration and Recommendation.*

City Council Action

OTHER BUSINESS:

26. YEAR-LONG COMMUNITY CONVERSATION

Mayor Pro Tempore Tate stated that he serves on the Financial Policy Committee (Committee) along with Council Member Grzan and City Treasurer Roorda. He indicated that the staff report was put together in response to a January 2004 adopted Council policy that states that the City is committed to a sustainable budget strategy. At the January 2005 Council retreat, the Council agreed to focus in getting the community involved in the sustainable budget strategy and determine the pulse of the community on the issues involved in revenue generation. He stated that the City conducted a survey and that the City Manager would be addressing the results of the survey; followed by discussions about where the City goes from here. He stated that the Committee has met 3-4 times to try and identify the framework for the community conversation, what it is supposed to do, the timeline involved, and what is to be accomplished. He noted that the staff report is divided into three phases, but that there is no hard and fast way to proceed with the phases as they may overlap. The Committee believes that the City needs to educate the community on how the City got to where it is and where the City is so that the public understands the situation. The Committee is recommending that this be an interactive process; educating the community and listening at the same time. Once the City identifies certain members in the community who understand all of the issues, the City needs to enter into an interactive dialogue that identifies options; narrows down the options, and develop consensus.

Mayor Pro Tempore Tate addressed the recommended conversational guideline being recommended. He said that the Committee came to the realization that even with staff support, the City does not have the expertise, without a lot of investment of staff and Committee time, to develop a program; developing a program in a manner that would be successful and get the job done. He indicated that the Committee is recommending that the Council allocate at least \$50,000. He clarified that the requested funding appropriation is not for the purpose of conducting a further survey, but to hire a consultant to help the

City shape the program in a way that would be successful. He noted that the Council has discussed investment of reserves for economic development activities that could have a return on investment as part of budget discussions. He stated that this community conversation may not have a return on the investment in terms of getting public support, but the Council will understand where the community is and the provisions of services they want provided. Therefore, the Committee believes that there is a notion of justification for the investment of the resources that it will take to do the job right. He stated that the recommended \$50,000 is a minimal amount and that the community conversation will still require a lot of staff and Committee time to augment and work with the consultant brought on board.

Mayor Pro Tempore Tate stated that the Committee agreed that it is essential to establish a true dialogue with the community. The Committee believes that there has to be time lapses between conversations where individuals can review materials and options. The Committee also believes that the City needs to educate the community and that the City needs to listen. It is being suggested that the community tell the Council where they want the City to go, but that this not be done in a dynamic or a forceful first response approach. It is felt that a studious atmosphere needs to be created. He informed the Council that there was a lot of discussion, at the Committee level, on who the audience should be. It is being recommended that the City look for individuals who can assist and have leverage with other members in the community. Community leaders need to be sought; individuals who will seriously come to conclusion about the services needed from the City; at what level they are willing to pay for these services; and the tradeoffs between the level of service and the dollars they are willing to spend. The Committee would like to see community leaders selected who can draw other individuals into the conversation.

Council Member Grzan said that the Committee and staff have done a great job in the process before the Council. He stated that the process is a very active and dynamic process and that each council member will need to engage themselves with the community to help educate, inform and receive feedback. He stated that this would be an extensive process; a process that he does not believe many communities have undertaken. He stated that the City needs to go out to the community and tell them how the City got to the place it is in. Also, to tell the community what the City has done to date to help matters. He noted that the City has cut hundreds of thousands of dollars from the budget, and yet, it is still not enough. It is felt that the community needs to know what the ramifications will be should the City not be able to bring in \$1.2-4 million in new revenue. The community needs to know what services it will lose or what facilities will close. He felt the City needs to meet with community leaders, Parents and Teachers Associations, the Morgan Hill Unified School District Board Members, and engage neighborhoods and individuals. Further, the City needs to put together an informational packet, utilizing the media, newspapers, and/or other means of communication that can reach every neighborhood. The City is to provide the community methods to access the Council; provide forums, workshops, e-mails, surveys, etc., as means of communicating with the public. It was his belief that the public has a poor view of government beurocracy and the City needs to overcome a significant bias that is out there. He felt that most community members do not believe the City does a good job. He recommended that the City share with the community what it has done and advise that the City is at a decision point.

Council Member Grzan stated that in order to plan for the process, the City needs to have a dedicated person on board in conjunction with staff. He stated that Phase I would educate and engage the public;

Phase II would go back to the community, and possibly conduct another survey and identify community responses; and Phase III would result in a consensus building. The Committee believes that this will be an extensive process; one that would result in fruitful gain. It was his belief that this is a start as the plans would develop over the next couple of months.

City Treasurer Roorda felt that this is a great process for the Council to consider. He thanked his fellow committee members, particular the leadership of Mayor Pro Tempore Tate for bringing this recommendation forward to the Council. He said that all Council members, at some point in time, have been engaged in the conversation at the Committee level. He was pleased to see the recommendation at the Council level as it will receive the discussion needed. He was also pleased that the City was able to bring in the press and others to make sure that this information comes out to the community. He noted that it has been five years since the Council adopted the five year budget strategy. He said that it has taken time for the process to come before the Council because it is known that the community will be facing some pain. Citizens may be willing to pay more taxes to fund the level of services in place today that are currently being subsidized, attributed to the efforts of other Council members for not spending up to the level of revenues that came in. If residents are not willing to pay additional taxes, they will face lower service levels. He stated that this community is fortunate that the City has reserves in place and that it has a year to have the community conversation. He recommended that this evening's presentation be made to the community; engaging the community and receiving their feedback in an affective way so that the City can move forward with a decision in a clear and careful way; one that is studied and considered.

Mayor Kennedy said that during the Council's goal setting retreat, the Council discussed several issues: economic uncertainties, the economic difficulties the City is having, and renewing the City's vision. He stated that he was pleased to see the work of the Committee. He said that the last time the City reviewed its vision 10-years ago, the Council discussed specific projects and that the Council did not discuss the issue of services. It was his believe that this was the logical next step, in terms of the broader goal of what the Council is trying to do as a city. He complimented the Committee for what it has put together. He felt that this was an excellent plan to move forward and that he would be supporting it. He stated that he would not be pursuing the vision because it was his belief the Committee was picking up this charge, in a different sense.

Mayor Pro Tempore Tate noted that the Council will be approving \$25,000 to be used for a second survey as part of the adoption of the budget next week. He said that the Committee talked about the possibility of a third survey, if necessary. The Committee is also recommending a \$50,000 appropriation for the retention of a consultant to help guide the City through this process.

Mayor Kennedy encouraged the Committee to look at what other cities have done, particularly through the League of California Cities. It was his belief that there are other projects similar to this one that might assist with ideas and thoughts to help supplement the work of the Committee.

Council Member Sellers stated that he is very familiar with the range of activities the city has undertaken. He is also familiar with the perils of not engaging in a long term education and/or conversation process. He noted that there were approximately 74 measures placed on the ballot

sponsored by various cities over the course of 2004. He indicated that approximately two-thirds of these measures failed. Cities realized they had problems and took steps to place a measure on the ballot in response to the problem. He did not believe that cities had the opportunity or the inclination to engage in a conversation with their communities. He felt that it was commendable that the City is undertaking this process because it will give the Council a clear sense of the direction it is to take. It will not be the Council stating that the measure is important and what the City needs to do, but rather, the community stating that it is important and what needs to be done. He recommended focusing on the education portion at the front end of the process as it is vital. He indicated that he was not leaning toward conducting three surveys as two surveys may be sufficient. He recommended that it be announced that should the City agree to move forward with a ballot measure, that the ballot measure would be proposed for November 2006 as this would be the appropriate timing in terms of planning and Council terms. He noted that he, Council Member Tate and Mayor Kennedy's terms on the Council will expire at that time. Therefore, it will be an opportunity for them to have this conversation in the larger context. He felt that it made sense to move forward and supports appropriating \$50,000. If the scope of work needs to be expanded, the Committee can return to the Council for additional funding.

Mayor Pro Tempore Tate indicated that the Committee has made an assumption that should the community conversation indicate proceeding with a ballot measure, a ballot measure would follow in November 2006. It was his hope that everyone, including those individuals up for re election, would assist with this campaign, in addition to whatever elected seat one is running for.

Council Member Carr agreed to state upfront that the target ballot date would be November 2006, should the community conversation lead the Council to a ballot measure. He stated that he would support the requested funding and that he was pleased that the Committee returned with a recommendation to seek professional assistance. He noted that City Treasurer Roorda mentioned that this has been a discussion item through all council members' rotation through the former Finance & Audit Committee. Further, this item came before the Council three different times for conversation; indicating that they were difficult conversations for the Council to have with no comments from the public. It was his belief that it was time for the Council to engage professional services to proceed with this work.

Mayor Kennedy opened the floor to public comment.

Dan Ehrler said that upon learning about the conversations and direction of the Council, the Chamber of Commerce is very interested in this conversation/process and wants to take a pro active role in assisting in the entire process. The Chamber of Commerce is willing to assist the Council in educating the community through their breakfast or business forums; utilizing the Chamber's communication system or other means of assistance in dealing with the education process, identifying alternatives, understands the results if no action is taken, etc. He stated that the City's financial situation does not fall only on one segment of the community. The business community and the residents of Morgan Hill need to share in these challenges. He said that the Chamber of Commerce wants to do its part and take its responsible role and do everything in support of the year long community conversation.

Bob Martin complimented the Council for pursuing this initiative. He felt the Council's action will speak as loud as its deeds, and that in executing this process, will give individuals a sense of ownership, authorship, and a sense of belonging to Morgan Hill. It was his belief that citizens will keep their dollars in Morgan Hill if the Council can reinforce that their voices are being heard. He recommended that the City make the community aware that this is an open dialogue and that based on the information received, if it necessitates a ballot measure, the City will put one forth that is based on the feedback received, and reinforcing the services the community wants.

Chris Bryant encouraged the Council to include the South County Realtors' Association and their weekly meetings as a means of communicating and obtaining feedback.

No further comments were offered.

City Manager Tewes indicated that he has the results of a statistically significant survey of the community that was conducted less than two months ago. He presented the results and a summary prepared by the City's professional consultants. The results demonstrate two messages: 1) the City should be encouraged by the extent of the positive views the community has about city government, in general, and about specific services. 2) The Council will find the information useful as the City initiates the conversation with the community about the mix and level of city services, and how they are to be paid for. He stated that 400 individuals who are likely to cast ballots in the November 2006 general election were interviewed and that the sampling error was less than 5%. He proceeded to address the results of the survey via a power point presentation. He noted that the results show that there is community support for a variety of city services and functions. However, the threshold has not been met on a specific tax measure that gains sufficient support to pass.

City Manager Tewes informed the Council that the consultants have concluded, from the data, that voters are generally highly pleased with the quality of life in Morgan Hill; housing costs are the only issues that most voters perceive as a local problem. Voters believe that city government, in general, and specific departments, are doing a good job. Voters recognize the negative impact of the State budget. Approximately 3 in 5 voters (60%) would be willing to support a small tax increase to fund local services; but that no specific funding mechanism receives this level of support. Voters place the highest priority on funding improvements to public safety and services to children. Further, that any ballot measure must include strict financial accountability provisions, including a 10-year sunset. He indicated that over all, most voters in Morgan Hill see little urgency in approving a tax increase at this time. The City's consultant concluded that voters should be educated to the City's needs and the reasons for placing a ballot measure before the voters to raise additional revenues. The City's consultants further indicate that although each case is specific, they in general like to see support for a general tax at more than 60% and more than 70% for a special tax. In terms of benchmarks, he indicated that the City is not yet in a position where one can predict that if the City placed a ballot measure before the voters of Morgan Hill, it would pass. Therefore, this demonstrates the importance of the community conversation. It was his hope that the Council sees the information developed by the City's consultants as encouraging and useful. He indicated that staff would provide the actual poll results to the Council and members of the press before the end of the evening.

Action: *On a motion by Mayor Pro Tempore Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Added** \$50,000 to the Proposed 2005-2006 General Fund Budget for the Cost of a Consultant to Manage the Year-Long Community Conversation Process.*

27. INTERVIEW AND APPOINTMENT PROCESS FOR BOARDS AND COMMISSIONS

Council Services & Records Manager Torrez informed the Council that at the May 28, 2005 meeting, Council Member Grzan requested that staff agendize the discussion of the Council's interview and appointment process. She informed the Council that staff requested that City Clerks from other jurisdictions advise as to their respective Councils' interview and appointment process. The responses received have been tabulated for Council consideration.

Council Member Grzan said that in the last opportunity to appoint to a Commission, the Council rated applicants 1-5. He said that under the current process, if there are 3 vacancies with only 3 applicants interested in appointments, all applicants would be appointed. He recommended that the Council consider a method to discriminate between a good candidate and a candidate that is not as qualified as other candidates. He said that the City may receive an application from a single issue individual or perhaps an individual who is upset about an issue. It was his belief that with the current process, all candidates would be appointed and that he did not believe that it would be to the City's advantage to appoint unqualified applicants. He stated that he would look toward a different scoring mechanism. For example, Council members are given the ability to score an applicant from 1 to 10 points. However, each applicant would have to receive a minimum of 26 points to qualify for appointment. If all council members were to give an applicant 5 points or below, an applicant would not be appointed. He suggested that the Council consider having an applicant receive a minimum score as he would like to make sure that everyone appointed has the skills and ability to fulfill the role of a commissioner.

Council Member Sellers indicated that he has often stated that the most difficult duty he has had to perform on the Council is to appoint individuals to boards and commissions. This is not because he was trying to decide between equally and qualified individuals, but the opposite, as most individuals are outstanding applicants. He felt that the Council needs to take this into account and that the Council does not turn away individuals who are eminently qualified. He noted that some cities include a discussion process and a gap between the time interviews are conducted and the time appointments are made. He felt the Council needs to incorporate the opportunity for the Council to have a discussion about the applicants. He has spoken to other cities where each council member has the opportunity to make one appointment to the planning commission. This process works in cities where there is division or factions between the council. He did not believe that these issues exist in Morgan Hill. He would support continuing with the interview and ranking process, adding a discussion period to achieve Council Member Grzan's goal (e.g., allow the Council the opportunity to discuss why council member(s) believe that an applicant(s) was outstanding or why they were not). He noted that several years ago, the Council instituted a policy that allows the appointment of a non Morgan Hill resident to serve on a board or commission. This was done specifically because of an eminently qualified individual who was not a city resident, but resides close to the City. He recommended that the Council limit the appointment of a non Morgan Hill resident. He indicated that the library impacts the outside

community as it does the city and that it would be appropriate to appoint a citizen who is not a citizen of Morgan Hill to that commission. He noted that the City has a hard time filling vacancies on the Architectural Review Board because of the specific qualifications to serve on this Board. He felt that the Council could consider appointment of citizens who do not reside within the City Limits in these two cases. However, he noted that the Council has had a significant number of qualified applicants wishing to serve on the Planning Commission, Parks & Recreation and other commissions. He did not know if it made sense to continue the policy of appointing an individual who does not reside within the city limits to these commissions when the City has a qualified applicant residing within the city limits. He recommended that the Council review this policy as well. He recommended that the Council revise its process and allow the Council to have a public discussion, at some point, before taking a vote to appoint. He felt that this would go a long way toward solving the problem(s). Further, that the Council look at residency appointment requirements as well.

Mayor Kennedy indicated that there were two recent situations where there were concerns about appointments. He felt that a problem was attributed to the fact that the Council did not have an opportunity to discuss the consequences based on point ranking. He recommended that the Council proceed to interview applicants at one meeting and vote at a subsequent meeting. Another option is for him to take input and return to the entire Council with a recommendation for appointment to the board or commissions, followed by a vote. He indicated that a responsibility of a directly elected mayor is to make appointments to boards, commissions and committees. He noted that it has been his policy to involve the Council directly in all appointments. However, it was his belief that some time was needed from the time the Council interviews applicants and the appointment process. He did not believe that the Council needs to vote the day interviews are scheduled. He would return to the Council with a recommendation or the entire Council could return with an appointment recommendation at a subsequent meeting. He felt that it would be important not to make an appointment the evening of the interviews.

Council Member Carr said that the Council may be trying to fix something that is not broken. He stated that he understood the interest of trying to create a dialogue. However, he expressed concern that by creating a time lapse between the time of interview and the time the Council make appointments may add politics to the process. He expressed concern that the Council will interview individuals and that in the interim, Council members would be lobbied. He noted that the current process allows him to make his decision based on the answers presented and that he is able to select the best candidate to fill vacancies not knowing how other council members are ranking other applicants. Not knowing how other council members rated individuals would not lead to altering numbers. He said that the process in place at this time is A-political and does not allow manipulation of the process. He noted that the Council does not assign questions, limit the questions asked, or ask the same question to every candidate. He felt that the Council has a fluid opportunity in the process in place at this time.

Council Member Grzan noted that one city provides candidates questions prior to the interview. He stated that he would like all candidates to have the opportunity to initially answer the same questions. This would place everyone on the same playing field. He indicated that at the last meeting the Council conducted interviews; Council members developed different questions for different candidates and felt that this may have been unfair. He recommended that applicants be given a set of questions that they are

to respond to and that the Council is free to ask follow up questions. This would allow the Council to hear applicant's view points on issues that are important and hear them all respond to the questions to achieve a fair appraisal.

Council Services & Records Manager Torrez informed the Council that staff tailors the applications to the various boards and commission. She indicated that the majority of questions on the applications are standard ones and that there are a couple of questions targeted toward a specific board or commission.

Mayor Pro Tempore Tate agreed with all the comments expressed. He stated that he has seen more controversial situations than one. He stated that there have been some situations where the Council has made appointments that he would have preferred not to make. However, they were the only applicants. Therefore, what Council Member Grzan is proposing may have merit. However, he agreed with Council Member Sellers' comments that the overall quality of the applicants is extremely high in most cases as well. He agreed with Council Member Carr that you do not want to bring politics into play by having a delay. However, it was his belief that there needs to be an opportunity for discussion and opportunity to exchange opinions among Council members before taking a vote. Discussion would allow disclosures about the various candidates as it is not always just the interviews that should be the basis for appointment. He felt that a lot of the controversies seem to deal with incumbent candidates. He suggested that there be special focus on what the Council does with incumbent candidates. It was stated that there is a policy in place that allows one planning commissioner to be appointed who resides outside the City Limits. He felt that Council Member Sellers' comments have merit that the Council would prefer to appoint all city residents. He did not know whether the Council would not reappoint an individual because they reside outside the city limits because a citizen who resides within the city limits wants to be appointed. He would like a process that would include discussion without a large delay that would open the process to politics or lobbying.

Council Member Carr stated that he did not want the Council to provide a disincentive for citizens to apply for the City's boards and commissions. If the City had double the amount of candidates for every application across the board, the Council can amend its policies. However, he noted that the City struggles to recruit citizens to serve on boards and commissions and convincing incumbents to reapply. He felt that standing before the Council may be an inhibitor to citizens. If it is felt that improvements to the process would get the City more applicants, he would support them. He felt that the first goal is to encourage more citizens to apply to serve on boards and commissions. It was his belief that the ARB has a seat that can have an appointment from outside the City Limits. The Parks & Recreation Commission also has an appointment that would allow appointment from within the city's boundary.

Council Member Grzan agreed that the City needs to attract more individuals to apply to boards and commissions. He felt the City should honor, respect and recognize time commitments and the efforts of its boards and commissions. He acknowledged that the City struggles to recruit to fill vacancies. He suggested that the Council take a look at how the City can make boards and commissions attractive; making the job attractive, challenging and rewarding (e.g., stipend for attending meetings).

Mayor Kennedy suggested that he, City Manager Tewes, and Council Services & Records Manager Torrez take the comments made this evening; meet and return to the Council with a recommendation to address the issues raised.

Action: *It was the consensus of the City Council to **accept** the Mayor's suggestion to have him and staff return with a recommendation on July 6, 2005 to address the issues raised this evening.*

City Council and Redevelopment Agency Action

OTHER BUSINESS:

28. JULY 2005 MEETING SCHEDULE

Council Services & Records Manager Torrez informed the Council that in February 2005, when staff inquired as to the Council's summer meeting schedule, the Council recommended that staff consider consolidation of the July 20 and the July 27 meeting, if possible. She stated that staff reviewed the agenda and work items that need to be considered by the City Council and found that should the Council wish to cancel one of its meetings, the July 20 meeting is the one to cancel.

Mayor Kennedy recommended the July 6 meeting be held, a special meeting is held on July 13 to conduct Planning Commission interviews, consolidating the July 20 meeting with the July 27 meeting.

Mayor Pro Tempore Tate noted that the Mayor's proposal assumes the Council will successfully come up with an appointment policy on July 6.

Council Member Carr did not see the benefit of moving a regularly scheduled meeting up a week. It was his belief that it was the idea to consolidate a meeting and have one fewer meeting in the month of July. He noted that the Council would be maintaining the same number of meetings in July, bumping one meeting up a week. He did not see an advantage to the amended schedule. He indicated that the Public Safety & Community Services Committee is scheduled to meet on July 20 at 5:00 p.m.

Council Members Carr and Sellers recommended the Council keep its regular meeting on July 20.

Mayor Pro Tempore Tate recommended that the July 20 meeting be dedicated to conducting interviews.

City Manager Tewes informed the Council that the City received a state grant to improve traffic conditions in front of Britton Middle School. Staff would like to be able to construct these improvements prior to the school opening. He indicated that the project has been designed and that it is awaiting a Caltrans engineer to state that the project is ready to proceed. This authority has not been granted. If the City cannot get this project approved by July 13, the City cannot reasonably expect that it can be completed before school begins. He clarified that the City cannot take the project out to bid until the design has been approved by the state as this is a state grant. He said that although this is an important project, he was not sure that the Council needs to reorganize its schedule around it.

Action: *It was the consensus of the Council to **retain** the Council/RDA regular meeting schedule of July 6, July 20, and July 27. Planning Commission **interview's to be conducted** on July 20 at 7:00 p.m.*

FUTURE COUNCIL-INITIATED AGENDA ITEMS

Mayor Kennedy stated that it has been his policy to recognize significant groups and achievements. He indicated that Live Oak High School has done amazing things with their athletic teams (softball, baseball, track, swimming teams). He would like to recognize these teams and requested that this recognition be placed on an upcoming agenda.

Mayor Kennedy requested the discussion about increasing Council & Mayor salaries be agendized at a future meeting, not a part of this budget process.

Council Member Grzan requested the discussion on the selection of a City Attorney be agendized.

Council Member Sellers indicated that the Community & Economic Development Committee will be considering the placement of a Measure C exemption ballot measure for the downtown next week and shortly thereafter to be discussed by the Council.

Mayor Pro Tempore Tate stated his disagreement with any amendments to Measure C until the Council tries the proposed amendments to the Measure C standards and criteria. He noted that a lot of work was conducted by the Measure C committee to make it work for the downtown. The Planning Commission incorporated criteria to be applied to the downtown and found allocations for the downtown. Now, there is talk about changing Measure C before trying the changes to the standards and criteria. He stated his disagreement with moving forward with a ballot measure.

ADJOURNMENT

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 10:23 p.m.

MINUTES RECORDED AND PREPARED BY:

IRMA TORREZ, CITY CLERK/AGENCY SECRETARY